

Message Text

LIMITED OFFICIAL USE

PAGE 01 BRASIL 05370 011447Z

45

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 /088 W

----- 011762

R 011415Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 115

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 5370

E. O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: CRUZEIRO DEVALUATION

REF: BRASILIA 5266

1. THE CENTRAL BANK ANNOUNCED, EFFECTIVE JUNE 26, 1975, THE SIXTH DEVALUATION OF THE CRUZEIRO OF THE YEAR. THE LATEST CHANGE, FOR 1.20 PERCENT, BRINGS THE CUMULATIVE DEVALUATION IN 1975 TO 8.45 PERCENT. DURING THE SAME PERIOD LAST YEAR, THERE WERE FIVE DEVALUATIONS WITH A CUMULATIVE CHANGE OF 9.63 PERCENT. NEW RATES ARE CR\$8.02 PER U.S. DOLLAR FOR BUY AND CR\$8.07 PER U.S. DOLLAR FOR SELL.

2. COMMENT: EXCHANGE RATE POLICY HAS BEEN THE SUBJECT OF A GOOD DEAL OF PRESS SPEIULATION RECENTLY, WITH A FOCUS ON TWO PARTICULAR ISSUES: (A) THE POSSIBLE INTRODUCTION OF A SPECIAL TOURIST EXCHANGE RATE AND (B) AN ALLEGED SEEMING ACCELERATION OF THE RATE OF DEVALUATIONS. THE SPECULATION ABOUT THE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 05370 011447Z

INTRODUCTION OF A POSSIBLE TOURIST RATE WAS

APPARENTLY TRIGGERED BY REMARKS MADE BY THE NEW PRESIDENT OF EMBRATUR, WHO FELT THAT THIS WOULD BE ONE GOOD WAY TO DECREASE THE BALANCE OF PAYMENTS TOURIST ACCOUNT DEFICIT WHICH LAST YEAR AMOUNTED TO \$231 MILLION. ALTHOUGH EMBRATUR IS A GOVERNMENT ENTITY, THE NEW PRESIDENT'S REMARKS WERE APPARENTLY HIS OWN AND DID NOT REFLECT GOVERNMENT'S THINKING OR PLANS. FINANCE MINISTER SIMONSEN HAS FIRMLY DENIED ANY SUCH INTENTIONS (SEE REFTTEL).

3. DURING THE LAST MONTH OR SO, THERE HAVE ALSO BEEN A NUMBER OF PRESS ACCOUNTS SUPPOSEDLY INDICATING THAT THE CENTRAL BANK HAD EMBARKED ON A POLICY OF ACCELERATING THE RATE OF CRUZEIRO DEVALUATIONS. IN AN APPARENT EFFORT TO COUNTER THESE SPECULATIONS, THE CENTRAL BANK CONSCIOUSLY DELAYED ANNOUNCING THE LAST RATE MOVEMENT. THIS DEVALUATION WAS MADE 43 DAYS AFTER THE LAST ONE WHILE THE PREVIOUS SEVEN CHANGES HAD BEEN ANNOUNCED WITHIN A TIME SPAN VARYING FROM 23 DAYS TO 39 DAYS. WE UNDERSTAND THE EXCHANGE MARKET HAD BEEN VIRTUALLY PARALYZED DURING THE LAST WEEK TO TEN DAYS AWAITING A CHANGE IN THE RATE.

4. A COMPARISON OF THE CUMULATIVE DEVALUATIONS THROUGH JUNE OF THIS YEAR WITH THE SAME PERIOD LAST YEAR INDICATES THAT THE TOTAL DEVALUATION HAS BEEN LOWER IN 1975 THAN IT WAS IN 1974 (9.63 PERCENT IN 1974 AS COMPARED WITH 8.45 PERCENT IN 1975). IF, HOWEVER, ACCOUNT IS TAKEN OF THE RELATIVE RATES OF INFLATION IN BRAZIL AND ITS PRINCIPAL TRADING PARTNERS -- AS THE CENTRAL BANK REPORTEDLY DOES IN CALCULATING THE PERIODIC DEVALUATION OF THE CRUZEIRO -- THEN THERE MAY IN FACT HAVE BEEN SOME INCREASE IN THE SPEED OF DEVALUATIONS WEIGHTED BY RELATIVE RATES OF INFLATION. INFLATION IN BRAZIL BETWEEN THE FIRST HALF OF 1974 AND THE FIRST HALF OF 1975 DROPPED BY ABOUT 8 PERCENTAGE POINTS, A FACT WHICH, IN ITSELF, OTHER THINGS BEING EQUAL, JUSTIFIES A DROP IN THE RATE OF CRUZEIRO DEVALUATION. THE QUESTION IS WHETHER THE 1.18 PERCENTAGE POINTS DROP IN THE CUMULATIVE DEVALUATION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 05370 011447Z

BETWEEN JAN/JUNE 1975 AND JAN/JUNE 1974 TAKES FULLY INTO ACCOUNT THE 8 PERCENTAGE POINTS DROP IN INTERNAL INFLATION BETWEEN 1974 AND 1975. THE FACT THAT INFLATION RATES IN BRAZIL'S PRINCIPAL TRADING PARTNERS, ON THE AVERAGE, SHOWED A MUCH SMALLER IMPROVEMENT DURING THIS PERIOD WOULD SEEM TO INDICATE THAT EVEN A LOWER CUMULATIVE DEVALUATION THROUGH JUNE COULD HAVE BEEN JUSTIFIED.
CRIMMINS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, DEVALUATIONS, CURRENCIES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL05370
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750228-0127
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750793/aaaadfbg.tel
Line Count: 115
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BRASILIA 5266
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <25 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CRUZEIRO DEVALUATION
TAGS: EFIN, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006